

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2018-318-E

In the Matter of)	REBUTTAL TESTIMONY OF
)	KODWO GHARTEY-TAGOE
Application of Duke Energy Progress, LLC for)	FOR DUKE ENERGY
Adjustments in Electronic Rate Schedules and)	PROGRESS, LLC
Tariffs and Request for Accounting Order)	

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT POSITION.

A. My name is Kodwo Gharthey-Tagoe, and my business address is 40 West Broad Street, Greenville, South Carolina 29601. I am State President – South Carolina for Duke Energy Progress, LLC (“DE Progress” or “Company”) and Duke Energy Carolinas, LLC (“DE Carolinas”), both of which are wholly owned subsidiaries of Duke Energy Corporation (“Duke Energy”).

Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY AND EXHIBITS IN THIS PROCEEDING?

A. Yes.

II. PURPOSE AND SCOPE

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to provide an overview of the Company’s rebuttal case.

Q. WHO ARE THE OTHER WITNESSES PROVIDING REBUTTAL TESTIMONY?

A. The Company’s other witnesses filing rebuttal testimony in this case are:

1. **Laura A. Bateman**, Director of Rates & Regulatory Planning, responds to accounting adjustments, ratemaking adjustments, and deferred costs proposed by the Office of Regulatory Staff (“ORS”) as well as proposals from Nucor Steel-South Carolina (“Nucor”).

- 1 2. **Kelvin Henderson**, Senior Vice President of Nuclear Operations,
2 discusses the ORS's recommendation to remove the Company's
3 request to adjust depreciation and amortization expenses to
4 establish a reserve for end of life nuclear costs not captured in
5 decommissioning studies. Witness Henderson also responds to the
6 recommendation to exclude nuclear inventory from the rate base.
- 7 3. **John Sullivan**, Director of Corporate Finance and Assistant
8 Treasurer, responds to ORS's recommendation for the cost of log-
9 term debt and the recommendation to lower the Return on Equity
10 ("ROE") requested by the Company. Company Witness Sullivan
11 also addresses Nucor's proposal to reduce the amortization period
12 of excess deferred income taxes ("EDIT") for the Company's
13 investments in property, plant and equipment, as well its proposal
14 regarding the Company's proposed common equity ratio.
- 15 4. **Janice Hager**, President of Janice Hager Consulting, addresses
16 intervenor concerns about the use of the minimum system concept
17 for allocation of costs in the cost of service study, as well as meter
18 costs and uncollectible costs being classified as customer related
19 costs.
- 20 5. **Robert B. Hevert**, Partner of ScottMadden, Inc., responds to the
21 ORS's recommendation to reduce the Company's ROE and the
22 recommendation to eliminate the return on certain accounting
23 deferrals, as well as the recommendations from Nucor.

- 1 6. **John Panizza**, Director of Tax Operations, responds to Nucor
2 Witness LaConte’s recommendation that the federal unprotected
3 property-related component of the Company’s proposed excess
4 deferred income tax (“EDIT”) Rider should be modified to return
5 excess deferred taxes more quickly.
- 6 7. **Retha Hunsicker**, Vice President of Customer Connect-Solutions,
7 addresses ORS Witness Payne’s recommendation to disallow the
8 projected two year average operating and maintenance (“O&M”)
9 expenses for the Customer Connect Program.
- 10 8. **Jon F. Kerin**, Vice President Coal Combustion Products
11 Operations, Maintenance and Governance, addresses issues related
12 to the Company’s request to recover its compliance expenses for
13 managing coal combustion residuals (“CCR”).
- 14 9. **Dr. Julius (Chip) Wright, Ph.D.**, Managing Partner, J.A. Wright
15 & Associates, LLC, also addresses issues related to the Company’s
16 request to recover its compliance expenses for managing CCR and
17 regulatory policy regarding cost recovery, including deferred costs.
- 18 10. **Steven B. Wheeler**, Pricing and Regulatory Solutions Director,
19 details the Company’s proposed increase of the Basic Facilities
20 Charge, Rate Design Proposal and rate structures, AMI-enabled
21 rate designs, Excess Deferred Income Tax Rider (“EDIT”), and the
22 Company’s Real Time Pricing rates.

- 1 11. **Donald L. Schneider**, Jr., General Manager, Advanced Metering
2 Infrastructure (“AMI”), responds to ORS’s recommendation to
3 deny the Company’s proposal to implement a Prepaid Advantage
4 Pilot program (“Prepaid Advantage” or the “Pilot”).
- 5 12. **Barbara A. Coppola**, Manager of Grid Solutions and Strategy,
6 addresses issues raised by ORS regarding litigation and other costs
7 specific to a contract that the Company executed with
8 CertainTEED Gypsum, NC, Inc (“CertainTEED”).
- 9 13. **Renee Metzler**, Managing Director for Retirement and Health and
10 Welfare, responds to ORS proposed disallowances related to
11 compensation and employee engagement related expenses.
12 Metzler explains that the ORS proposed adjustment and
13 disallowance of expenses and incentive compensation should be
14 rejected by the Commission. Witness Metzler also describes the
15 importance of such incentives for the Company’s workforce.
- 16 14. **Lesley Quick**, Vice President, Revenue Services, discusses the
17 need to include the Company’s growth projections in the
18 Company’s proposed adjustment for credit, debit, and Automated
19 Clearing House (“ACH”) payment expenses. Witness Quick also
20 responds to the request for the Company to publicly file with the
21 commission monthly data regarding general residential and low-
22 income customer account information.

1 15. **John J. Spanos**, President, Gannett Fleming Valuation and Rate
2 Consultants, LLC, responds to portions of Nucor testimony
3 regarding recommendations concerning the depreciation reserve.

4 16. **Julie K. Turner**, Vice President of Carolinas Natural Gas
5 Generation, responds to the Sierra Club's proposal to disallow
6 recovery of the Company's investment in Dry Bottom Ash
7 Systems and the proposal that the commission direct the Company
8 to perform certain economic analyses.

9 **III. REBUTTAL TESTIMONY**

10 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S**
11 **REBUTTAL CASE.**

12 **A.** When I consider the positions taken by the ORS, I'm concerned about the
13 effect of those positions on the Company's financial condition, which
14 directly affects our ability to provide safe, clean, reliable electricity to our
15 customers. There are many contradictions in the ORS case which concern
16 me. I explain some of those contradictions in my rebuttal and other
17 Company witnesses address them as well in their rebuttal. For example,
18 ORS Witness Dan Witliff departs from the historic practice of allocating
19 costs between South Carolina and North Carolina given our dual state
20 structure. Historically, all of the Company's generation costs have been
21 allocated between the two states, as well as fuel costs and associated costs.
22 Now, the ORS proposes to disallow certain environmental compliance costs
23 due to the ORS's view of a North Carolina law. This is a concerning

1 position, and could result in more costs being allocated to South Carolina,
2 as explained by Company Witness Dr. Wright. North Carolina generally
3 pays 70 percent of the Company's costs – if North Carolina took the same
4 view as South Carolina, there could be a monumental cost shift to customers
5 in this State.

6 I also see a contradiction in the ORS position that attempts to
7 devalue and effectively disallow costs the Company has incurred to finance
8 deferred costs. The ORS takes this position but yet argues that it is allowing
9 the Company full cost recovery, which is not the case as explained by
10 Company Witness Bateman and others in this case. This view is even more
11 contradictory in that ORS Witness Parcell suggests lowering the allowed
12 return on equity in this case based on such deferrals, but then the ORS
13 argues to reduce such deferrals. That is not logically consistent. As to the
14 ROE proposed by the ORS, I'm concerned with their proposal to set such a
15 low ROE, and that in doing so they are ignoring the ROEs of similarly
16 situated utilities as explained by Witnesses Hevert and Sullivan.

17 I am also concerned about ORS' recommendation to disallow
18 expenses related to community organizations, employee compensation and
19 employee recognition and engagement expenses. No one has challenged our
20 overall salary levels, rather the ORS proposes to disallow compensation
21 based on how we pay, versus what we pay. Only looking at one piece of
22 employee compensation, as the ORS has done, ignores the Company's
23 obligation to be responsive to the market for talent and assure the

1 competitiveness of the total compensation package, consisting of base
2 salary, cash based incentives, long-term incentive compensation, retirement
3 and other benefits. Additionally, we need to keep employees engaged and
4 trained. Our employee programs enhance and reinforce employee
5 engagement and/or reduce overall costs. Businesses with more engaged
6 employees have lower levels of turnover and absenteeism and higher levels
7 of productivity and customer satisfaction. Using employee engagement
8 programs as a means of retaining critical skills benefits customers through
9 higher service levels and lower turnover costs. Experienced, engaged
10 employees that are incentivized to remain with the Company and work in a
11 safe manner while emphasizing high service levels benefit our customers.
12 Company Witness Metzler addresses these topics in more detail.

13 I was pleased to see that no party contested our proposal to eliminate
14 credit card fees, but I was disappointed that our adjustment to recover the
15 expected uptick in customer subscription was opposed by ORS. Company
16 Witness Quick addresses this in more detail, but the use of credit and debit
17 cards for no additional fee is a constant wish of our customers that we are
18 ready and willing to meet, but we should not be harmed by meeting that
19 need.

20 Another issue of great concern to me, is the apparent
21 misunderstanding regarding the Company's Basic Facilities Charge. We
22 have proposed a cost based charge—that would allocate to each customer
23 the costs to have the infrastructure available to serve them. Any costs that

1 are in the Basic Facilities Charge are not included in the variable rate
2 component of the rate schedule. Parties seem to assume the change in the
3 Basic Facilities Charge is additive—it is not. Moreover, this charge ensures
4 that other customers are not subsidizing low usage customers, such as
5 customers with vacation or second homes. Recovery of all customer related
6 costs through the Basic Facilities Charge reduces bills from what they
7 would otherwise be in very hot summer months and very cold winter
8 months. Nonetheless, as Company Witness Wheeler explains, if the change
9 is considered too much at one time, we have proposed an alternate approach
10 with a more gradual increase to the Basic Facilities Charge and to reinstate
11 the remaining costs back into the variable component as proposed by
12 Company Witness Pirro.

13 Finally, an issue of great concern for me is Nucor's position and
14 recommendation on the amortization of theoretical reserve estimated in the
15 depreciation study, as well as its recommendation to shorten the
16 amortization period for the property related to the unprotected EDIT from
17 20 years to 5 years. We believe that the Company's approach and
18 recommendations for theoretical reserve imbalance and a longer
19 amortization period for the Company's property, plant, and equipment
20 ("PP&E") relies on traditional and proven methods which will provide
21 greater long term benefits for our customers.

1 **Q. DOES YOUR SUMMARY OR TESTIMONY ADDRESS ALL**
2 **ISSUES IN THIS CASE?**

3 **A.** No, my testimony is designed to provide an overview of our rebuttal case,
4 but I have not attempted to capture all subjects in my testimony. Our
5 witnesses address additional topics on a case by case basis.

6 **Q. PLEASE ADDRESS THE COMPANY'S RESPONSE TO**
7 **PROPOSED DISALLOWANCES FOR ENVIRONMENTAL**
8 **COMPLIANCE COSTS.**

9 **A.** In its testimony, the ORS dangerously suggests that the Commission should
10 not approve any costs that the Company incurred to comply with the North
11 Carolina Coal Ash Management Act ("CAMA") under the apparent theory
12 that South Carolina customers should only receive the benefits of sharing
13 power generation assets with North Carolina but pay none of the costs that
14 the Company has to incur to comply with North Carolina laws and policies.
15 In direct contradiction to its own position, however, ORS suggests that
16 North Carolina customers should absolutely pay for the costs that the
17 Company has to incur to comply with the laws and policies of South
18 Carolina. The inequity of ORS's position is apparent.

19 Additionally, the ORS is factually incorrect when it suggests that
20 CAMA has imposed additional expenses on South Carolina customers. To
21 the contrary, the coal ash beneficiation requirements in CAMA will actually
22 provide South Carolina customers millions of dollars in net savings, all of
23 which would have to be refunded to North Carolina customers if the ORS's

1 ill-conceived proposal to reject CAMA is accepted. Moreover, if ORS's
2 position is taken to its logical conclusion, it would call into question the
3 continued wisdom of sharing assets and economies of scale across
4 jurisdictional boundaries, a result that would harm all customers with higher
5 prices and the costs of uneconomic duplication of assets. These dire
6 consequences are discussed in more detail by Company Witnesses Kerin
7 and Wright.

8 Witnesses Kerin and Wright also address the unsubstantiated claim
9 by SCEUC Witness O'Donnell to disallow 75 percent of these costs. This
10 proposal is so reckless and unsubstantiated that it should be summarily
11 rejected by the Commission.

12 **Q. PLEASE ADDRESS THE COMPANY'S RESPONSE TO ORS'S**
13 **PROPOSED DISALLOWANCES RELATED TO DEFERRED**
14 **BALANCES.**

15 **A.** The ORS does not raise any prudence allegations regarding the Company's
16 actions relative to expenses included in deferred balance. ORS simply,
17 ignores that the timeliness of cost recovery matters and that the Company
18 must finance the deferred balances. The ORS proposes stretching out
19 certain deferred costs over extended periods of time without recognizing the
20 time value of money, the costs to finance the expenditures, or the underlying
21 necessity of the costs that were incurred. While we are generally not in
22 dispute over the underlying actions which resulted in the deferred balances,
23 ORS takes a drastic position on the return on those balances during the

1 deferral period and amortization periods to seemingly suggest that the
2 Company is profiting from delayed recovery of costs. This is not the case.
3 The Company's request includes the recovery of its carrying costs or the
4 time value of money based upon our financing structure. The Company's
5 financing is made up of both debt and equity, and to ignore the way the
6 Company finances its costs will cause grave concern to investors as
7 articulated by Company Witness Hevert. It would also depart from good
8 regulatory practice as explained by Company Witnesses Wright and
9 Bateman. I also see a contradiction in ORS's position, because at the same
10 time the ORS proposes to effectively disallow deferred costs (without any
11 allegation of imprudence), the ORS cost of equity witness relies upon the
12 deferrals to arbitrarily attempt to lower the Company's cost of capital. It is
13 a contradiction to rely upon those deferrals in one witness's
14 recommendation, but then cut them in another.

15 **Q. PLEASE ADDRESS THE COMPANY'S REACTION TO THE**
16 **PROPOSED ROE RECOMMENDED BY ORS WITNESS**
17 **PARCELL.**

18 **A.** We are also concerned about the cost of equity capital proposed by ORS.
19 We agree on capital structure, but we have one correction to the actual
20 12/31/2018 debt rate as explained by Company Witnesses Sullivan and
21 Bateman in their rebuttal testimonies. As to the return on equity proposed
22 by ORS, both Company Witnesses Hevert and Sullivan explain that the
23 Company competes for capital with other vertically integrated electric

1 utilities, its ROE proposal is generally in line with authorized ROEs
2 determined by other regulatory commissions, and that the ORS proposal is
3 significantly lower than those authorized ROEs. This is particularly true
4 with respect to other vertically integrated electric utilities in the
5 Southeastern United States, as Witness Sullivan notes. To put the Company
6 at a disadvantage vis-à-vis its competitors would be a disservice to
7 customers, and will only cause the cost of capital, particularly equity capital,
8 to rise in the future as rating agencies and equity analysts reconsider
9 whether to continue recognizing South Carolina as a jurisdiction with
10 constructive and credit supportive regulation. Similarly, Company Witness
11 Sullivan addresses Nucor Witness LaConte's recommendation that the
12 Commission consider reducing the Company's proposed 53 percent equity
13 ratio on the basis that it is above industry average. This is not accurate, as
14 a number of the utilities included in Witness LaConte's testimony are
15 publicly-traded utility holding companies that are not subject to regulated
16 capital structures, therefore are not comparable to the Company. Further,
17 Witness LaConte's recommendation is not based upon actual regulatory
18 capital structures, and is therefore misleading.

19 **Q. DOES THE COMPANY DISAGREE WITH OTHER**
20 **DISALLOWANCE RECOMMENDATIONS MADE BY ORS?**

21 **A.** Yes. Another ORS proposal that the Company would like to address is the
22 ORS's disallowance of the costs to participate in local organizations in the
23 communities that we serve. Organizations like chambers of commerce,

1 economic development associations, and tourism organizations all exist to
2 bring more industry and residents to their region. Duke Energy pays dues
3 to be a part of these organizations because we believe it is important to
4 participate in the communities we serve, and to be engaged at a local level
5 to ensure we understand our customers' needs. This is important in
6 everyday business, but also in storm restoration and economic development
7 efforts.

8 For example, our participation in such organizations gets us to the
9 table early for economic development opportunities which benefits our
10 customers and the State. This helps with capacity and reliability
11 discussions, method-of-service decisions, incentive considerations, and
12 more. These discussions and decisions are all important aspects of
13 recruiting prospects, securing deals, and announcing wins for our state. Our
14 contributions to these organizations have a direct link to winning projects
15 for the state of South Carolina. Some notable wins over the past few years
16 include: the Schaeffler Group USA expansion and Nestle Bottled Water in
17 Chesterfield County, the Invista expansion in Kershaw County, and the
18 Continental Tire expansion in Sumter County. I don't understand why the
19 ORS believes it is inappropriate for the Company to be a good, involved
20 corporate citizen in the communities we serve.

1 **Q. PLEASE DESCRIBE THE COMPANY’S OVERARCHING**
2 **CONCERNS ON EMPLOYEE-RELATED COST**
3 **DISALLOWANCES PROPOSED BY THE ORS.**

4 **A.** I am also concerned about the ORS disallowing compensation costs and
5 normal company costs to reward and engage employees. Our customers are
6 direct beneficiaries of the good work of our employees. No one has argued
7 that our overall salary levels are at issue, rather the ORS proposes to
8 disallow compensation based on how we pay, versus what we pay. We need
9 to keep employees engaged and trained. As explained by Company Witness
10 Metzler, the purpose of carving out a portion of employees’ total
11 compensation and delivering it through variable incentive pay is to
12 encourage employees to accomplish objectives intended to ensure safe,
13 reliable, and economical utility service to our customers. This variable
14 incentive pay also ensures that the employees’ business units and Duke
15 Energy’s overall objectives are met. This not only allows Duke Energy to
16 be competitive in the market, but helps retain the level of talent that the
17 energy industry demands, in order to best serve customers safely and
18 efficiently.

19 **Q. PLEASE PROVIDE THE COMPANY’S REACTION TO THE ORS’S**
20 **AND OTHERS’ RECOMMENDATIONS REGARDING THE BASIC**
21 **FACILITIES CHARGE.**

22 **A.** Another area of concern is the various positions from ORS and intervenors
23 on the Basic Facilities Charge. We recognize this is a major issue for many

1 customers and we care very much about our customers. However, this is
2 also an essential element of cost recovery. For every dollar that is not
3 recovered through the Basic Facilities Charge, it has to be recovered
4 through volumetric rates, and that can create cost shifts as well as cause
5 “spikier” bills in hot summers or cold winters. For example, not having an
6 appropriate Basic Facilities Charge means that other customers are
7 subsidizing low usage customers, such as people with vacation homes or
8 people with second homes elsewhere in the state of South Carolina.
9 Moreover, the Intervenors have not recognized the benefits of the Basic
10 Facilities Charge increase - that it will also reduce volumetric swings,
11 making bills in the summer and winter more tolerable. In other words, the
12 increase in the Basic Facilities Charge also has a smoothing effect on rates
13 that benefits customers. Notwithstanding this benefit of our proposal, we
14 appreciate the concerns of other parties. As noted in Witness Wheeler’s
15 rebuttal testimony, the Company’s cost of service studies, which were
16 accepted by the ORS, indicates that these costs are Customer-related costs
17 and therefore the Basic Facilities Charge should recover them. If the
18 Commission believes that our proposed increase to the Basic Facilities
19 Charge is too drastic a change at this time, I would point the Commission
20 and parties to Witness Wheeler’s alternative suggestion of setting the Basic
21 Facilities Charge rate to 50 percent of the difference between the current
22 rate and the cost basis, reducing the proposed Basic Facilities Charge to

1 \$19.03 while shifting the other revenue requirement to the variable
2 component in a manner consistent with that proposed by ORS.

3 **Q. PLEASE EXPLAIN WHY THE COMPANY'S WITNESSES ARE**
4 **NOT ADDRESSING THE GRID IMPROVEMENT PLAN IN THEIR**
5 **REBUTTAL TESTIMONIES.**

6 **A.** The Company has reached an agreement with the ORS to establish a new
7 and separate docket to review and examine the Grid Improvement Plan for
8 both: Duke Energy Progress and Duke Energy Carolinas, and no party has
9 objected to that agreement. We are withdrawing the Grid Improvement
10 Plan and the treatment of costs incurred from January 1, 2019 from this
11 docket pursuant to the Commission's March 13, 2019 Directive in this
12 Docket.

13 **Q. PLEASE DESCRIBE THE COMPANY'S REACTION TO NUCOR'S**
14 **RECOMMENDATIONS PERTAINING TO THEORETICAL**
15 **DEPRECIATION RESERVE AND THE IMPLEMENTATION OF**
16 **THE TAX CUTS AND JOBS ACT.**

17 **A.** As explained by Company Witness Spanos, Nucor Witness Pollock's
18 position and recommendation to amortize the depreciation reserve estimated
19 in the depreciation study over a 10-year period is in opposition to our
20 traditional proposal to use the remaining life technique. We believe that
21 Nucor's suggested approach will not result in an equitable distribution of
22 depreciation charges over the remaining lives of the Company's assets and
23 will produce artificially low depreciation expenses and rates in the near term

1 and high depreciation expenses and rates for customer in the future, as
2 explained by Company Witness Spanos.

3 Also, Company Witnesses Bateman and Sullivan describe that our
4 proposal regarding implementation of the Tax Cuts & Jobs Act (“Tax Act”)
5 is reasonable. We believe the application of the Tax Act to DERP balances
6 are reasonable, and that we have proposed an appropriate length of time for
7 returning deferred reserved and unprotected EDIT. DE Progress agrees that
8 customers should and will benefit from the overall reduction in revenue
9 requirement, but we do not believe that Nucor’s recommendation accounts
10 for other impacts of the Tax Act as it relates to cash flow. Company Witness
11 Sullivan points out that reducing the Company’s cash flow through a more
12 accelerated flowback of unprotected EDIT, at the same time DE Progress is
13 investing in large capital projects and faced with large refinancing
14 obligations, will negatively impact its credit metrics, which should be taken
15 into account.

16 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

17 **A.** Yes.